

Message Text

CONFIDENTIAL

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C O N F I D E N T I A L TOKYO 6197

LIMDIS GREENBACK

TREASURY AND FEDERAL RESERVE FROM ESCOUBE

E. O. 11652: GDS

TAGS: EFIN JA

SUBJ: JAPAN' S HIDDEN RESERVES

REF: A. STATE 07934; B. STATE 190853, OCT 20, 1972

SUMMARY: MOF NOW MORE RELAXED ABOUT DISCUSSING RESERVE MANAGEMENT POLICIES. THIS DUE TO B/ P DEFICITS IN RECENT MONTHS, FLOATING EXCHANGE RATE, AND THEREFORE NO NEED TO " HIDE " FULL AMOUNT OF EXCHANGE MARKET INTERVENTION. IN ADDITION, ABILITY TO GENERATE LONG- TERM CAPITAL EXPORTS ON A CONTINUING BASIS HAS PROVIDED A MORE DEPENDABLE WAY OF FINANCING CONTINUED CURRENT ACCOUNT SURPLUSES. FOLLOWING ARE CONFIDENTIAL DETAILS ON PAST AND PRESENT " HIDDEN RESERVE " MANAGEMENT POLICIES PROVIDED BY DIRECTOR INTL FPXFNCE BUR HAYASHIBC

1. CONVERTIBLE FOREIGN EXCHANGE -- U. S. DOLLARS: EVIDENTLY THIS IS VIRTUALLY ALL HELD IN U. S., INCLUDING DEPOSITS WITH PRIVATE U. S. BANKS. LATTER DEPOSITS ARE KIND OF COMPENSATING BALANCES FOR CREDITS MADE TO JAPANESE COMPANIES AND BANKS, WHICH ARE BEING MAINTAINED IN ORDER TO MAINTAIN " GOOD WILL." ALTHOUGH QUESTION WAS NOT PUT DIRECTLY, FINATT GOT IMPRESSION THAT ALL OFFICIAL DEPOSITS IN BANKS ABROAD ARE INCLUDED IN CONFIDENTIAL

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PUBLISHED RESERVES.

2. OTHER OFFICIAL RESERVE ASSETS: IN REPORTS TO BIS (ESTEVA TABLES) ITEM 7, " OTHER ASSETS ," CONSISTS OF U. S. TREASURY BONDS AND NOTES AS WELL AS U. S. EXIMBANK PAPER WITH PUT OPTIONS. IN MAR 73 SOME \$270 MIL OF MARKETABLE USG AGENVZ PAPER PURCHASED IN PREVIOUS MONTHS (INCLUDING 1972) WAS BROUGHT INTO RESERVES. EXCLUDED FROM ITEM 7 AND FROM REPORTED RESERVES ARE HOLDINGS OF CORPORATE BONDS AND EXIM PAPER WITHOUT PUT OPTION. MOF WOULD NOT INDICATE SIZE OF THOSE HOLDINGS AT THIS TIME.

3. DEPOSITS BY MOF FOREX SPECIAL ACCOUNT ARE NOT RPT NOT INCLUDED IN PUBLISHED RESERVES AND ARE MAIN ELEMENT IN " HIDDEN RESERVES" (SEE TOKYO 3306, MAR 31, 1972; 9351 AUG 31, 197").

(A) THOSE DEPOSITS ROSE BY \$2.6 BIL IN CY 72. THERE HAS BEEN NO FURTHER INCREASE IN RECENT MONTHS BECAUSE OF RESERVE LOSSES. BEST ESTIMATE OF FINATT IS THAT TOTAL AMOUNT OF THOSE DEPOSITS AT END OF 72 WAS \$4.6 BIL. OF THAT \$2 BIL WAS DEPOSITED DURING 1971, \$0.6 BIL IN FIRST HALF 72, \$1.2 BIL IN THIRD QUARTER 72 AND \$0.8 BIL IN FOURTH QUARTER 72.

(B) THESE DEPOSITS MADE ONLY IN JAPANESE- OWNED BANKS. BECAUSE MONEY IS FUNGIBLE, MOF UNABLE TO TRACE HOW BANKS ULTIMATELY INVEST OR LEND PROCEEDS OF THESE DEPOSITS. NEVER- THE LESSGN OPERATION OF FOREX CONTROLS ASSURES MOF THAT FUNDS ARE IN FACT " EXPORTED." PRESUMABLY BULK OF ASSETS ACQUIRED ARE RECORDED IN B/ P AS LONG- TERM CAPITAL OUTFLOW (I. E. ASSETS WITH MATURITY OF ONE YEAR). NEVERTHELESS, IF PROCEEDS USED TO ACQUIRE SHORT- TERM ASSETS, THESE WOULD
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*** Current Handling Restrictions *** LIMDIS

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